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August 27, 2004

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth Street, SW
Room CY-B402
Washington, D.C. 20554

Re: In the Matter of Ameritech Operating Companies' Cost Allocation Manual Revisions to Utilize a Statistical Sampling Process for Technician Time Reporting – AAD 94-59 and in the Matter of Pacific Bell's Cost Allocation Manual for the Separation of Regulated and Nonregulated Costs – DA 92-782 (AAD 90-12) and in the Matter of Southwestern Bell Telephone Company's Permanent Cost Allocation Manual for the Separation of Regulated and Non-Regulated Costs – DA 00-1686 (ASD 99-25)

Dear Ms. Dortch:

Pursuant to Section 64.903(b) of the Commission's rules, as amended by the Report and Order in CC Docket No. 99-253, SBC Communications Inc. ("SBC") respectfully submits an original and three copies of partial updates to the Cost Allocation Manual ("CAM") filing on behalf of Illinois Bell Telephone Company, Indiana Bell Telephone Company, Michigan Bell Telephone Company, The Ohio Bell Telephone Company, Wisconsin Bell, Inc., (collectively, SBC Midwest), Pacific Bell Telephone Company, Southwestern Bell Telephone, L.P. and Nevada Bell Telephone Company.

With this CAM filing, we propose to consolidate the following five time reporting applications:

- Enhanced Time Distribution Process (ETDP) for Pacific Bell Telephone Company and Nevada Bell Telephone Company (Network).
- ETDP for SBC Midwest (Network) and SBC Global (Midwest Sales).
- Technician Activity Statistical Sampling (TASS) for Southwestern Bell Telephone, L.P. (Network).
- Enhanced Sales Time Reporting System (ESTRS) for Pacific Bell Telephone Company and Nevada Bell Telephone Company (Sales).
- Time Reporting Activity Control System (TRACS) for Southwestern Bell Telephone, L.P. (Sales).

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Ms. Marlene H. Dortch

July 29, 2004

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The new consolidated system is known as CHEETTA (Consolidated Hours ETDP, ESTRS, TASS, TRACS, AIS). As stated in SBC's June 16, 2004 letter to Mr. Clifford Rand, Deputy Division Chief, Pricing Policy Division of the Wireline Competition Bureau, the new system will operate using a consolidated software/hardware platform, rather than the five different software/hardware platforms currently being used. The consolidated platform will not alter any controls or control functions inherent within SBC Midwest's, Pacific Bell Telephone Company's or Nevada Bell Telephone Company's ETDP/ESTRS or Southwestern Bell Telephone, L.P.'s TASS. Southwestern Bell Telephone, L.P.'s TRACS will be enhanced to incorporate the best practices of Pacific Bell Telephone's ESTRS platform.¹

Associated changes to Section VII, Time Reporting Procedures, can be identified by annotations in the right hand margin of each revised page and are described in the attachment. A phased-in implementation of CHEETTA is planned with all regions converted by February, 2005.

Consolidation of these time reporting systems expands the analyst's responsibilities from a single region to multiple regions. This efficiency increases an analyst's flexibility, enabling a reduction in the number of full-time analysts.

Also, SBC will eliminate the supervisor sample-log approval process that has been a part of the statistical sampling of Network technician activities. This does not in any way impact or reduce the important internal control of supervisory approval for technician payroll time reporting.

Please stamp and return the provided copy to confirm your receipt of this filing. Please contact me at (202) 326-8919 should you have any questions about this CAM filing.

Sincerely,



Michelle Thomas, Executive Director - Federal Regulatory

Enclosures

¹ In a letter to David Cartwright, Director-Federal Regulatory, SBC Telecommunications, dated July 14, 2004, Mr. Clifford Rand, Deputy Division Chief, Pricing Policy Division, Wireline Competition Bureau, FCC, responded that he did not see any problems with SBC's planned modifications, but would review SBC's CAM changes when filed.

TRANSMITTAL MATRIX CAM CHANGES
Description of change

<u>Page USOA Account</u>	<u>Change From</u>	<u>Change To</u>	<u>Reason for Change</u>	<u>Annualized Quantification</u>
VII -1	This section covers the training methods that are used by Ameritech, Nevada Bell, Pacific Bell, and Southwestern Bell	This section covers the training methods used to raise employee awareness of time reporting	Consistency in Table of Contents descriptions.	Not Applicable (N/A)
VII - 2	The chart also displays for which employee groups sampling . . .	The chart also displays for which employee groups activity sampling . . .	Clarification	N/A
VII - 2	Positive time reporting . . .	Positive Time Reporting . . .	Consistency	N/A
VII - 2	. . . engineering . . .	. . . Engineering . . .	Consistency	N/A
VII - 2	Positive time reporting . . .	Positive Time Reporting . . .	Consistency	N/A
VII - 2	Ameritech, Nevada Bell, Southwestern Bell, Pacific Bell	Ameritech, Southwestern Bell, Pacific Bell, Nevada Bell	Reordered Company Names for consistency	N/A
VII - 2, 3, 4	b. Sampled Positive Time Reporting . . . cost assignment data that is input.	b. Sampled Positive Time Reporting . . . cost assignment data input.	Combined Section b. & c. into b. for consolidated time reporting system - CHEETTA	N/A
VII - 3, 4	c. Sampled Positive Time Reporting . . . sampled activity logs.	N/A	Combined Section b. & c. into b. for consolidated time reporting system - CHEETTA	N/A
VII - 4	. . . exception reported and routinely assigned . . .	. . . exception-reported and routinely-assigned . . .	Clarification	N/A
VII - 5, 6	1. For Sales employees . . . the Part 32 accounts associated with the exception code used.	1. For Sales employees . . . the Part 32 accounts associated with the exception code used	Combined Section 1 & 2 into 1 for consolidated time reporting system - CHEETTA	N/A
VII - 5, 6	2. For Sales employees . . . the Part 32 accounts associated with the exception code used.	N/A	Combined Section 1 & 2 into 1 for consolidated time reporting system - CHEETTA	N/A
VII - 6	. . . utilizes a time and motion study to allocate the regulated, nonregulated and administrative time of . . .	. . . utilizes a time and motion study to allocate the regulated and nonregulated time of . . .	Consistency among sections. There is no change in the methodology of allocating administrative time.	N/A

TRANSMITTAL MATRIX CAM CHANGES

Page USOA Account	Change From	Description of change Change To	Reason for Change	Annualized Quantification
VII - 6	Company statisticians use a statistically valid method to randomly select the monthly sample size by stratum.	A statistically valid method is used to randomly select the monthly sample size by stratum.	Consistency	N/A
VII - 6	The Administrative time is loaded on the regulated and nonregulated products/services based on the results of the study.	N/A	Eliminated sentence for consistency among sections	N/A
VII - 6	The resulting percentage is put into the CAS system. It is . . .	The resulting percentage is put into the CAS system and is . . .	Clarification	N/A
VII - 6	. . . exception reported and routinely assigned . . .	. . . exception-reported and routinely-assigned . . .	Clarification	N/A
VII - 7	The resulting percentage is put into the CAS system. It is . . .	The resulting percentage is put into the CAS system and is . . .	Clarification	N/A
VII - 7	The resulting percentage is put into the CAS system. It is . . .	The resulting percentage is put into the CAS system and is . . .	Clarification	N/A
VII - 7, 8	<ul style="list-style-type: none"> The studies use time sampling . . . paid time off, of the service representatives. 	<ul style="list-style-type: none"> Sampled sales calls are used . . . paid time off, of the service representatives. 	Updated to provide more concise description.	N/A
VII - 9	Nonproductive time . . .	Nonproductive Time . . .	Consistency	N/A
VII - 9	. . . nonproductive . . .	. . . Nonproductive . . .	Consistency	N/A
VII - 9	. . . administrative time . . .	. . . Administrative Time . . .	Consistency	N/A
VII - 9	. . . exception time reporting . . .	Exception Time Reporting . . .	Consistency	N/A
VII - 10	Administrative time . . .	Administrative Time	Consistency	N/A
VII - 10	The administrative time	The Administrative Time	Consistency	N/A
VII - 10	. . . multiplied by the administrative time . . .	. . . multiplied by the Administrative Time . . .	Consistency	N/A

TRANSMITTAL MATRIX CAM CHANGES

<u>Page</u> USOA <u>Account</u>	<u>Change From</u>	<u>Description of change</u>	<u>Change To</u>	<u>Reason for Change</u>	<u>Annualized Quantification</u>
VII-11	NONMGT at the left column margin	NONMGT centered in the middle of the column		To center the NONMGT under the conventional header.	N/A

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SECTION VII –TIME REPORTING PROCEDURES

TABLE OF CONTENTS

A. TIME REPORTING METHODS USED TO ALLOCATE EXPENSE TO PART 32 ACCOUNTS

This section details the time reporting methods used to drive expenses to the correct Part 32 accounts and to meet the Part 64 requirements for separating regulated and nonregulated expenses.

B. STUDIES FOR PART 64 ALLOCATION OF MARKETING AND SALES EMPLOYEES' EXPENSE

This section details the studies that are used to allocate the cost pools within a Part 32 account to regulated and nonregulated to meet Part 64 requirements. They are not used to drive payroll expenses to Part 32 accounts.

C. TRAINING

This section covers the training methods used to **raise employee awareness of time reporting.**

D. MONITORING AND CONTROL

This section covers how the monitoring and control requirements are met.

E. RECORD RETENTION

Record retention requirements are stated in this section.

F. ALLOCATION OF NONPRODUCTIVE TIME

This section details the allocation of nonproductive time.

A. TIME REPORTING METHODS USED TO ALLOCATE EXPENSE TO PART 32 ACCOUNTS

This section of the Companies' CAM describes the methods used to assign salary and wages to regulated and nonregulated operations. Job functions are used to directly assign or attribute costs whenever possible to regulated and nonregulated activities and to a specific Part 32 account. When an entire function cannot be directly assigned or attributed, time reporting is used to assign costs to regulated or nonregulated activities. Two time reporting methods are utilized: Positive Time Reporting (PTR) and Exception Time Reporting (ETR). Chart 1, at the end of this section, displays which method is used by each functional work group. The chart also displays for which employee groups activity sampling is utilized in conjunction with time reporting to allocate to regulated and nonregulated.

1. Positive Time Reporting

This method of time reporting assigns labor costs by identifying and reporting time for all activities on a daily basis. Positive Time Reporting drives payroll expenses to the appropriate Part 32 account. Network Operations and Engineering labor forces use this method. Employees that positive time report use several time reporting accounting codes. Positive Time Reporting will be in one-quarter hour increments. There are two types of Positive Time Reporting. They are Conventional Positive Time Reporting and Sampled Positive Time Reporting.

a. Conventional Positive Time Reporting – Ameritech, Southwestern Bell, Pacific Bell, Nevada Bell.

Employees who use conventional positive time reporting identify one hundred percent of their time, in fifteen-minute increments, on a daily basis.

b. Sampled Positive Time Reporting – Ameritech, Southwestern Bell, Pacific Bell, Nevada Bell - Consolidated Hours – ESTRS, ETRP, TRACS, TASS, AIS (CHEETTA) - Network

Sampled positive time reporting is used for employees who consistently report their time to the same accounting classifications and whose activities are predominantly classifiable to expense accounts. Current employees who use the CHEETTA - Network process for sampled positive time reporting are Plant Specific Installation/Maintenance/Repair technicians. Employees whose activities are predominantly classifiable to construction (capital accounts) report by conventional positive time reporting.

Employees covered by sampled positive time reporting are subdivided by state and are eligible for sampling each month. For the monthly samples, a statistically valid method is used to randomly select employees within each state. The sample is designed to provide an allocation of employees' time/dollars, that is within +/- 3 percentage points at the 95% level of confidence.

The selected employees complete mechanized activity logs which identify how their time was spent during the sample day. Completed logs are verified for accuracy by trained analysts via phone interviews with the technicians. A review of the quality of reporting (e.g., completeness, accuracy of detail and matching to source documentation) is also performed. The activity time data is then compiled by state and converted into percentages by the appropriate accounting classifications.

The activity percentage distribution for each state developed from the previous three-month sample period is used to distribute the time of all the employees in the CHEETTA population in the current month. The percentage distribution is input into the time reporting system, and employees in the CHEETTA population, when not subject to sampling procedures, report only actual time worked (such as a normal eight-hour workday or paid time off) without identifying any distribution to specific activities. The expense related to paid time, by both sampled and non-sampled employees, is then distributed to Part 32 accounts based upon the state percentage distributions.

Any work outside of normal job activities, such as uniquely-required regulated and nonregulated product/project tracking, contracts, and other special projects not captured in the activity logs, are reported using conventional positive time reporting. The positive time reporting drives the expense to the Part 32 accounts and to regulated or nonregulated products/services as required based on the cost assignment data input.

2. Exception Time Reporting

Exception time reporting is the method by which employees report time only when engaged in an activity outside their routinely assigned functions. Exceptions to normal work activities include time paid but not worked (e.g., vacations, holidays, and paid excused workdays), as well as uniquely-required regulated and nonregulated tracking, contracts, and other special projects. The accounting system assigns costs to both the exception-reported and routinely-assigned functions as follows:

$$\begin{array}{|c|} \hline \text{Costs Associated} \\ \text{with Routinely} \\ \text{Assigned} \\ \text{Functions} \\ \hline \end{array} - \begin{array}{|c|} \hline \text{Exception} \\ \text{Reported} \\ \text{Costs} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Costs Remaining} \\ \text{with Routinely} \\ \text{Assigned} \\ \text{Functions} \\ \hline \end{array}$$

Exception time reporting will be in the following increments:

- Southwestern Bell and Nevada Bell 15 minutes,
- Pacific Bell; marketing employees 15 minutes, other employees 1 hour
- Ameritech 1 hour or less

The expenses associated with the routinely assigned functions are driven to the appropriate Part 32 account by the use of Accounting Codes. These codes are pre-established on each employee's mechanized payroll record and are associated with regulated, nonregulated or common activities. The distribution of expenses among accounting codes is established for each employee through an employee-by-employee analysis of job functions, and is modified whenever a significant shift in employee job functions occurs. It is the responsibility of the employee's department head to insure that the accounting information is accurate. Accurate daily time reporting is each employee's responsibility.

Employees are required to maintain all relevant records, such as time report worksheets and associated back-up, assignment logs, planning calendars, day planner pages and telephone and appointment logs. This supporting documentation, as well as the exception time reports, is maintained by the originator for the record retention period. (See E. RECORD RETENTION.)

Establishment of accounting codes associated with nonregulated activities on the employee's payroll record will be utilized only in selected instances where the time spent on nonregulated activities remains stable. This method of capturing nonregulated payroll expenses is applied on an individual basis. For example, a product manager who month after month spends 80 percent of his/her time on a nonregulated activity can utilize this method to properly record payroll expenses by indicating on the mechanized employee payroll record that 80 percent of his/her time should be assigned to a nonregulated activity each pay period. If this product manager then worked on a special regulated project for a period of time, exception time reporting would be used to assign that additional time to the appropriate regulated account code.

B. STUDIES FOR PART 64 ALLOCATION OF MARKETING AND SALES EMPLOYEES' EXPENSE

This section details the studies that are used to allocate the cost pools within Part 32 accounts 6612 and 6623 to regulated and nonregulated to meet Part 64 requirements. They are not used to drive expenses to Part 32 accounts. Chart 1 displays the various sampling methods and the employee groups for which they are used.

For the marketing and sales employees, the costs associated with their routine job functions are assigned to the appropriate pool within a specific Part 32 account by Accounting Codes assigned to the employees. Various allocation methods are used to distribute those cost pools to regulated and nonregulated. The allocation methods are applied to pools for specific accounts in the Cost Allocation System (CAS) processes.

1. For Sales employees – Southwestern Bell, Pacific Bell, Nevada Bell - Consolidated Hours – ESTRS, ETDP, TRACS, TASS, AIS (CHEETTA) - Marketing

This allocation method utilizes a time study to allocate the regulated and nonregulated time of direct sales personnel within Account 6612.

For the monthly samples, a statistically valid method is used to randomly select employees and assigned sample days. The sample period is one day. The sample is designed to provide an allocation of employees' time/dollars, that is within +/- 3 percentage points at the 95% level of confidence.

The selected sales personnel complete mechanized daily logs that identify how their time was spent during the sample day. Completed logs are verified for accuracy by trained analysts via phone interviews with the sales personnel. After being reviewed, this information is used to compute a three-month rolling average of regulated and nonregulated percentages. The percentage distribution is input into the CAS system to allocate the Premise Sales Cost Pool in account 6612.

The employees in the direct sales personnel who were not selected to be sampled, report only exceptions to normal work activities. Exceptions include uniquely required regulated and nonregulated product/project tracking, contract, and other special projects. The exception reporting drives the expense to the Part 32 accounts associated with the exception code used.

2. For Service Representatives - Pacific Bell - Sales Channel Study

This method of allocating non-exception reported time utilizes a time and motion study to allocate the regulated **and** nonregulated time of service representatives within Account 6623.

A statistically valid method is used to randomly select the monthly sample size by stratum. Each sample is then generated using a random number generator. Employees that have been sampled previously are not eligible to be sampled more than once in the same calendar year.

A time and motion study is performed to determine the percent of time spent on each activity. The results of the study are used to determine the percentage of activities, on average, that are devoted to regulated products/services vs. nonregulated products/services.

The resulting percentage is input into the CAS system **and** is applied to the costs in the Service Order Cost pool in account 6623. This pool contains the expense for the paid time, including paid time off, of the service representatives.

Any exceptions to normal work activities, such as uniquely-required regulated and nonregulated product/project tracking, contracts, and other special projects, are reported using exception time reporting. The exception reporting drives the expense to the Part 32 accounts associated with the exception code used.

3. For Service Representatives - Southwestern Bell - Customer Operations Expense Study

This method of allocating non-exception reported time utilizes time studies to allocate the regulated and nonregulated time of service representatives within Account 6623.

The statistician determines the appropriate number of calls needed to produce a statistically valid sample. Prerecorded sales calls from the various call centers within the Southwestern Bell region are haphazardly selected monthly by stratum. A time study is performed using these samples to determine the percent of time spent on each product/service offered within the call centers. The results of the study are used to determine the percentage of activities that are devoted to regulated products/services vs. nonregulated products/services.

The resulting percentage is input into the CAS system and is applied to the costs in the Service Order Cost pool in Account 6623. This pool contains the expense for the paid time, including paid time off, of the service representatives.

Any exceptions to normal work activities, such as uniquely-required regulated and nonregulated product/project tracking, contracts, and other special projects, are reported using exception time reporting. The exception reporting drives the expense to the Part 32 accounts associated with the exception code used.

4. For Service Representatives - Nevada Bell – Customer Operations Expense Study

This method of allocating non-exception reported time utilizes time studies, sales reports and call volume data to allocate the regulated and nonregulated time of service representatives within Account 6623.

- **Sampled sales calls are used to establish standard times for each nonregulated item that is sold. These standard times include a prorated amount of the common time.**
- **Call Volume and Average Call Length data from the Business and Consumer support organizations is used to calculate the total call time for all service representatives.**
- **The standard time to make a sale of a nonregulated product is multiplied by the number of sales for that item for the month. The time for all nonregulated products is summed and subtracted from the total call time. The remainder is the regulated time.**
- **The results of the study are used to determine the percentage of time, on average, that is devoted to regulated products/services vs. nonregulated products/services.**
- **The resulting percentage is input into the CAS system. It is applied to the costs in the Service Order Cost pool in Account 6623. This pool contains the expense for the paid time, including paid time off, of the service representatives.**

Any exceptions to normal work activities, such as uniquely-required regulated and nonregulated product/project tracking, contracts, and other special projects, are reported using exception time reporting. The exception reporting drives the expense to the Part 32 accounts associated with the exception code used.

C. TRAINING

Training is designed to raise the employees' awareness of the time reporting requirements of this manual.

Methods include:

- Training documents covering system changes that are sent as required to system users.
- Providing revisions to all accounting manuals.
- Initial account code training is given to new positive time reporting employees who support nonregulated activities.
- Periodic time reporting training is provided as requested by a department or as training needs are identified.
- Statements included in the company "Code of Business Conduct." (This is a summary of corporate policies reviewed and signed annually by all employees. It explains the employees' responsibilities and the penalty for violations.)
- Annual time and expense reporting policy letter from upper management, which is provided to all employees.

D. MONITORING AND CONTROL

Time reporting monitoring is achieved through review and verification procedures including:

- Periodic internal and external audits are conducted to ensure compliance with time reporting procedures, and
- Reviews of payroll time reporting and accounting classification code accuracy are performed periodically.

Control is achieved through the management approval process for time reporting.

E. RECORD RETENTION

All relevant records, including time sheets and required supportive documentation, are retained for a period of at least one year after the close of the year to which the records relate per the "Order on Reconsideration," CC Docket No. 86-111 (released October 16, 1987) paragraph 90.

F. ALLOCATION OF NONPRODUCTIVE TIME

The Companies have subdivided the FCC definition of nonproductive time for clarification. It is classified into two categories, nonproductive time and administrative time, as follows:

- Nonproductive Time is paid time off from work. Nonproductive Time consists of the following items: vacations, holidays, and paid excused workdays.
- Administrative Time consists of productive activities on the job that are not chargeable to a specific type of telephone plant, product, service or job function. Examples of administrative time include, staff meetings and activities not specified to regulated or nonregulated products/services.

1. Positive Time Reporting Employees

Employees that perform engineering and plant operations functions report their Nonproductive and Administrative Time to specific accounting codes. These costs are apportioned based on their productive wages and salaries.

2. Exception Time Reporting Employees

a. Nonproductive Time

Nonproductive Time for employees using Exception Time Reporting (ETR) from a directly assigned cost pool will be allocated to the same cost pool as the ETR hours based upon a ratio of the nonproductive wages to total productive wages of employees using ETR for the cost pool. The CAM develops the following nonproductive ratio:

$$\frac{\text{Total Nonproductive Costs of ETR employees}}{\text{Total Productive Costs of ETR employees}} = \text{Nonproductive ETR Ratio (NETR Ratio)}$$

For each accounting code with directly assigned wages, the amount of expense that would have been assigned using the NETR Ratio is calculated by multiplying the NETR Ratio times the productive wages. This amount is then assigned to the same cost pool as the ETR productive hours.

b. Administrative Time

Administrative Time for employees using exception time reporting (ETR) from a directly assigned cost pool will be allocated to the same cost pool as the ETR hours. The Administrative Time percentage is determined by a study. It is multiplied against applicable ETR wages. For example, a marketing employee for whom regulated accounting codes have been established, exception reports time to a nonregulated tracking code. The reported nonregulated time is multiplied by the Administrative Time percentage. An applicable amount of additional expense is deducted from regulated expense and assigned to the nonregulated tracking code.

CHART 1
TIME REPORTING AND ALLOCATION METHODS BY WORK GROUP

<u>Work Group In USOA</u> <u>Expense Accounts</u>	<u>Positive Time Reporting</u>		<u>Exception Time Reporting</u>	
	<u>Conventional</u>	<u>Sampled</u>	<u>Allocation by</u> <u>Accounting Code</u>	<u>Allocation Methods</u> <u>Using Sampling</u>
<u>PLANT SPECIFIC</u>				
Construction	NONMGT			
Installation	NONMGT	NONMGT		
Maintenance/Repair	NONMGT	NONMGT		
Engineering	MGT & NONMGT			
<u>PLANT NONSPECIFIC</u>				
Provisioning	NONMGT		MGT & NONMGT ^A	
Network Admin.	NONMGT		MGT & NONMGT ^A	
Testing	NONMGT		MGT & NONMGT ^A	
Plant Oper. Admin.	NONMGT		MGT & NONMGT ^A	
Engineering Admin.	MGT		MGT & NONMGT ^A	
<u>CUSTOMER OPERATIONS</u>				
Product Management			MGT & NONMGT	
Sales			MGT & NONMGT	MGT & NONMGT
Product Advertising			MGT & NONMGT	
Call Completion			MGT & NONMGT	
Number Services			MGT & NONMGT	
Customer Services			MGT & NONMGT	NONMGT
<u>CORPORATE OPERATIONS</u>				
Executive			MGT & NONMGT	
Planning			MGT & NONMGT	
Accounting & Finance			MGT & NONMGT	
External Relations			MGT & NONMGT	
Human Resources			MGT & NONMGT	
Information Management			MGT & NONMGT	
Legal			MGT & NONMGT	
Procurement			MGT & NONMGT	
Research & Development			MGT & NONMGT	
Other General & Admin.			MGT & NONMGT	

^ANonmanagement employees using ETR in the plant nonspecific work groups represent clerical and other support employees.